

Message Text

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ACTION EUR-25

INFO OCT-01 ADP-00 PRS-01 OIC-04 AID-20 CEA-02 CIAE-00

COME-00 EB-11 EA-11 FRB-02 INR-09 IO-12 NEA-10

NSAE-00 RSC-01 OPIC-12 TRSE-00 CIEP-02 LAB-06 SIL-01

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TO SECSTATE WASHDC 7403

INFO USMISSION OECD PARIS

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E. O. N/A

TAGS: EGEN, OECD

SUBJECT: JOLLES ON ENTERTAINMENT AT OECD EXECUTIVE COMMITTEE
NEW STYLE MEETING (XCNS), MARCH 19-20

REF: OECD PARIS 05839

1. JOLLES SAYS THAT HE ASKED SWISS PERM REP HEIMO TO
ARRANGE INFORMAL DINNER EVENING MARCH 18 AND LUNCHEON
MARCH 19, WITH OBJECT OF USING THEM TO CREAT ATMOSPHERE
OF CONFIDENCE AND COOPERATION. HE FEELS IT ESSENTIAL TO
CREATE IMPRESSION THAT THERE WILL BE NO PRE- JUDGING OF
ISSUES IN XCNS AND THAT ALL RELATIONS
ARE STRICTLY ABOVEBOARD IF IT IS TO SUCCEED.
HE BELIEVES HE SHOULD CONVEY
WILLINGNESS TO HAVE CONTINUING INFORMAL CONTACTS WITH
ALL PARTICIPANTS, SO THAT ALL WILL BELIEVE THAT THEY
ARE GETTING AN EQUAL BREAK. IF HE CAN ESTABLISH A GOOD
ATMOSPHERE AT BEGINNING, HE BELIEVES THAT IT WILL BE
POSSIBLE TO MAINTAIN INTENSIVE, RESTRICTED CONTACTS
THAT WILL BE ESSENTIAL LATER ON. HE REPEATED HIS
INTEREST IN CONFIDENTIAL, CLOSE, AND CONTINUING RELATION-
SHIP WITH US.

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2. WITH THESE OBJECTIVES IN MIND, JOLLES ASKED HEIMO TO INVITE REPS FROM FOLLOWING TO MARCH 18 DINNER: US, GERMANY, FRANCE, UK, NETHERLAND, SWEDEN, NORWAY, AUSTRIA, AND GREECE, AS WELL AS VAN LENNEP AND OCKRENT. (JOLLES SAID THAT HE WAS FRANKLY HESITANT TO INCLUDE GREEK REP, WHILABLE FOR USE AGAINST OTHER PROFITS WITHIN GROUP, AND THESE TRADING LOSSES CAN BE CARRIED FORWARD INDEFINITELY.

7. SINCE THEY DO NOT QUALIFY AS RESIDENT GROUPS IN UK (AND TYPICALLY HAVE NOT SOUGHT THAT STATUS) US INTERNATIONALS WOULD NOT ORDINARILY BE ABLE TO USE TAX LOSSES OF THEIR TRADING AFFILIATES TO OFFSET PROFITS THEIR NORTH SEA OR OTHER AFFILIATES. WE UNDERSTAND IN ADDITION THAT TAX LOSSES OF THEIR TRADING AFFILIATES THAT RESULT FROM ACTUAL LOSSES OR ARE AVAILABLE IN FORM OF DEPRECIATION ARISING OUT OF CAPITAL ALLOWANCES ARE USUALLY SUFFICIENT TO EXTINGUISH MOST OF TRADING AFFILIATES' TAX LIABILITIES, SO THAT THERE IS LITTLE INCENTIVE FOR US INTERNATIONALS TO GENERATE ADDITIONAL TAX LOSSES FOR TRADING AFFILIATES' BENEFIT. WE ARE ALSO TOLD THAT US INTERNATIONALS IN ANY CASE CUSTOMARILY FOREGO TAX OPPORTUNITIES THAT POSTED PRICE TRANSFERS MIGHT OFFER AND TRANSFER CRUDE TO TRADING AFFILIATES AT PRICES APPROXIMATING MARKET PRICES.

8. ESSO SOURCE ADDED THAT FOR REASONS OF US TAX LAWS (MOSTLY DEPLETION ALLOWANCE) US INTERNATIONALS TYPICALLY PREFER TO CARRY OUT NORTH SEA OPERATIONS WITH AFFILIATE INCORPORATED IN US. HOWEVER THIS AFFILIATE IS SUBJECT TO BRITISH TAXES AND WOULD BE LIABLE IN FULL FOR TAXES ON ITS NORTH SEA PROFITS, EXCEPT AS THOSE MIGHT BE OFFSET BY TAX LOSSES OR CAPITAL ALLOWANCES AFFILIATE GENERATES IN ITS NORTH SEA OPERATIONS. (LATTER COULD BE CONSIDERABLE, BUT ARE NOT RELEVANT TO CHANCELLOR' S CURRENT UNDERTAKINGS.)

9. COMPANIES NOW AWAITING CONSULTATIONS CHANCELLOR PROMISED. IF CHANCELLOR LIMITS HIMSELF TO UNDERTAKINGS IN BUDGET MESSAGE TO INTRODUCE ADMINISTERED PRICE AND TO RESTRICT USE OF ACCUMULATED TAX LOSSES, WE UNDERSTAND THESE ARE NOT LIKELY TO HAVE SIGNIFICANT EFFECT LIMITED OFFICIAL USE

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ON US INTERNATIONALS' OVERALL OPERATIONS AND ARE NOT
EXPECTED TO AFFECT TYPICAL US INTERNATIONAL' S NORTH
SEA TAXES OR PROFITS. HOWEVER US COMPANIES REGRET
THAT PAC AND CHANCELLOR CHOSE TO LUMP " INTERNATIONALS"

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*** Current Classification *** LIMITED OFFICIAL USE

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